


Malartic
Hygrade
Gold Mines
(Canada) Ltd.

Annual Report
1978





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Malartic
Hygrade
Gold Mines
(Canada) Ltd.

Officers

J.S. Belton	President
H. Peter Jarvis	Vice-President
Hyman S. Goldstein	Secretary-Treasurer

Directors

J.S. Belton	London, England
Hyman S. Goldstein	Toronto, Canada
Gerard Lanthier	Montreal, Canada
H. Peter Jarvis	Toronto, Canada

Registrar and Transfer Agents

Metropolitan Trust Company
Toronto, Ontario

Hill Samuel Registrars Ltd.
London, England

Auditors

MacGillivray & Co.,
Toronto, Ontario, Canada

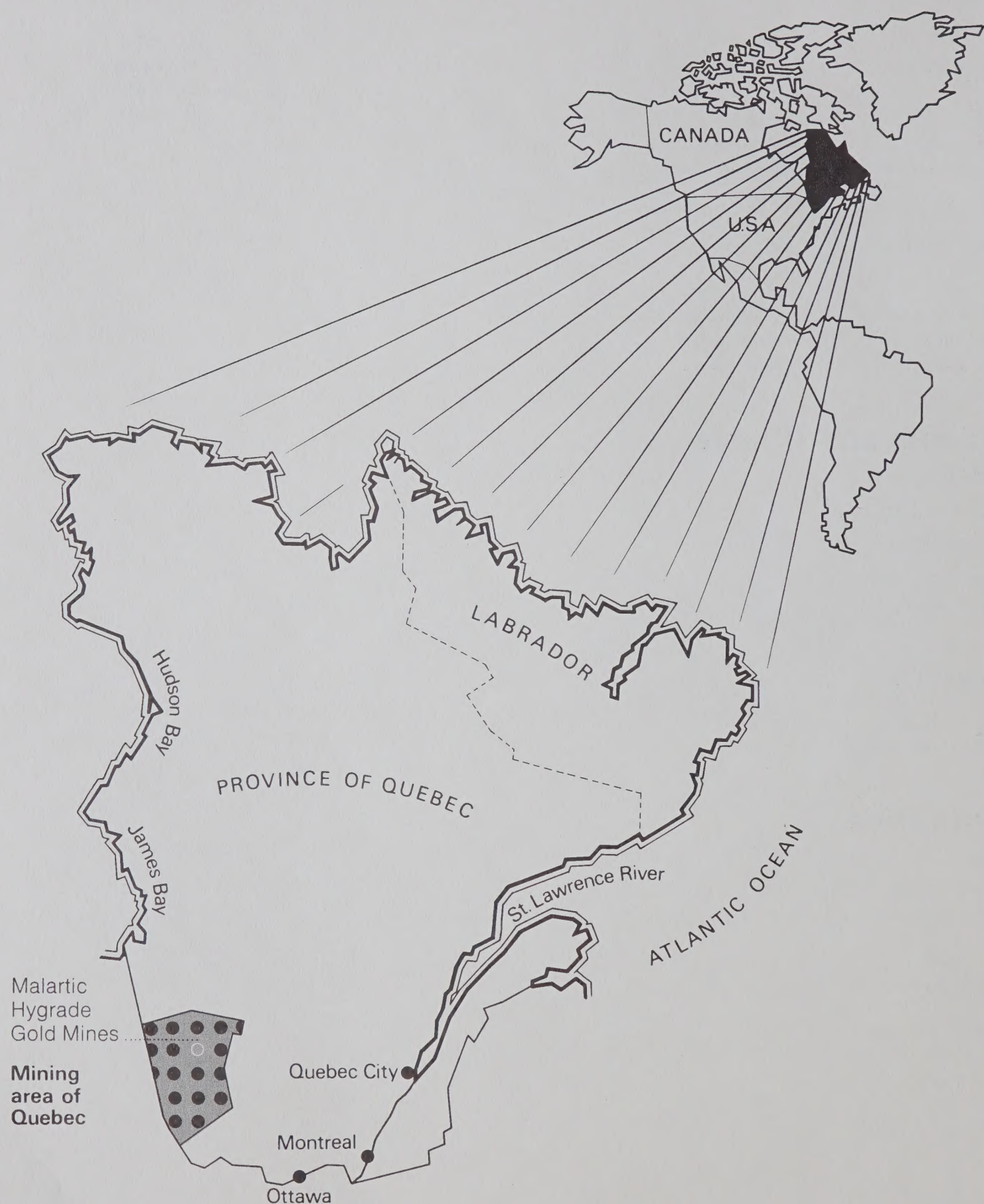
Head Office

Suite 600
55 University Avenue,
Toronto, Ontario, Canada

Bankers

Royal Bank of Canada,
20 King St., West,
Toronto, Canada

Mining Area



To the Shareholders



Malartic
Hygrade
Gold Mines
(Canada) Ltd.

The directors herewith submit their annual report for the fiscal year ended September 30, 1978, together with audited financial statements covering the period.

As has been the case for the past five years, your President has devoted most of his time defending your company's interests against the alliance of the principals of Camflo Mines and officials of the Quebec and Ontario Securities Commissions. The source of the difficulties remains the same, deriving from the admitted efforts of officials of the Quebec Securities Commission to force your company into an unacceptable agreement with Camflo Mines. When my predecessor as President, Gerard Paquette, refused to yield to this coercion and instead took the matter before the Quebec courts and then exposed this corruption publicly, these Quebec government officials suspended trading in the company's shares in Quebec and enlisted the co-operation of their counterparts in Ontario to establish an illegal embargo against the trading of the shares in the Ontario marketplace. This action against your company and its shareholders was followed by a continuous program of false accusations and harassment by these officials. The purpose of this conspiracy was to attempt to irreparably damage or destroy your company for the benefit of Camflo Mines.

The central quality of a free market is the absence of coercion. In all market transactions two parties, seller and buyer, are involved. In free markets there is a power balance between the parties. Neither party is able to force upon the other, conditions he is not willing to accept voluntarily, thus in a free market all transactions occur as the result of free bargaining.

However, as soon as one of the parties in a market is able to use (misuse) or enlist the aid of the powerful state apparatus, with its officials, commissions, policemen, etc., the party disposing of this apparatus is usually able to force upon the other party conditions the latter would not accept voluntarily. Your company has refused to accept such an abuse of power or the illegal actions related to it and thus a protracted struggle has taken place, only a small part of which has been witnessed by this company's shareholders and the public.

The former President and founder of your company adopted, from the outset of the present difficulty, a practice of recording every action under-

taken against your company by these officials and confronting the official concerned with his action, in writing, by registered letter. It is a practice that I have continued. By May of 1976, this had resulted in more than two thousand pages of correspondence and other documents, a substantial part of which I organized into a Submission to the Minister of Consumer and Commercial Relations in Ontario, in the summer of that year. The Submission documents the abuse of power and illegal activities of officials of the Quebec and Ontario Securities Commission operating within and under his jurisdiction. The Minister at the time, Mr. Sidney Handleman, first attempted to avoid his responsibility, then claimed that I did not exist, and finally resigned. His successor, Mr. Larry Grossman, refused to answer my correspondence, but finally made a statement about the matter in the Ontario Legislature, about which I wrote him (see my letter to him dated August 14, 1978, reproduced as a part of this report). He resigned.

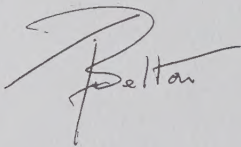
I have placed this company's Submissions, to the Minister of Consumer and Commercial Relations for Ontario, before the Attorney General of Ontario, the Minister of Justice in Quebec, the Royal Canadian Mounted Police, the Ontario Ombudsman, all the members of the Cabinet of the government of Ontario and every Member of the Ontario Legislature. Despite this, none of the government officials concerned has been prosecuted, although many have resigned or been fired. Others, where serious illegal conduct has been involved, have not even, it seems, been reprimanded—and Camflo Mines Limited and its officers appear to be licenced by the Ontario government to misrepresent the position of the ore zone (the cause of a fifteen year conflict between the two companies) to their shareholders and the public alike with impunity. It is clear that the principals of Camflo have undue influence over the present government of Ontario.

This company has always been prepared to enter into an agreement with Camflo Mines as a result of a process of free bargaining—only in the complete absence of any coercion. Having suffered nearly a decade of abuse at the hands of Camflo principals, it was quite obvious to Mr. Gerard Paquette in 1973, when Camflo principals finally initiated formal and proper negotiations for an agreement to mine your company's property in continuation of Camflo's mining operations to the common boundary (see

diagrams) between the two companies, that very careful safeguards would have to be built into any agreement in order to protect your company's lawful rights and property. To be subjected to coercion, in the matter of an agreement at the hands of government officials, in the midst of these negotiations, merely reinforced this conclusion.

The activities of Camflo principals to take this company over and/or force it into an agreement by illegal means, has in the final result not served the interests of either their shareholders or ours, or indeed the mining community in which the properties are located. It is to be hoped that an agreement can be concluded with Camflo on terms acceptable to both companies. I am, however, engaged in negotiations with other mining companies for the purpose of obtaining agreement to develop your company's property, in the event that Camflo remains unprepared to agree to the safeguards necessary to protect your interests as outlined in your company's proposal to Camflo Mines Limited dated October 1, 1973. Any agreement entered into, either with Camflo or any other company, to develop and mine your company's property, will be submitted to our shareholders in its entirety for your approval.

On behalf of the
Board of Directors,



J. S. Belton, President

August 14, 1978

Registered Mail

The Hon. Larry Grossman
Minister of Consumer & Commercial Relations
Government of Ontario
555 Yonge Street
Toronto, Ontario
Canada

Dear Mr. Grossman,

You have held the position of Minister of Consumer and Commercial Relations for approximately a year. You are, then, well aware of the fact that this company has made formal Submissions to your Ministry both prior to and during your tenure. Despite the fact that we addressed several letters and our Supplementary Submission II directly to yourself, we have received neither acknowledgment nor reply from you, although a number of your colleagues in the Cabinet have written us with respect to the matter. It has been discussed in the Cabinet and your colleagues have advised that we would be hearing from you.

The only reference, we are aware of, that you have made to this matter is that made in the Legislature on December 5, 1977 in response to a question from a Member (see copy of Hansard enclosed.) In response to this question about Malartic Hygrade you are reported as stating:

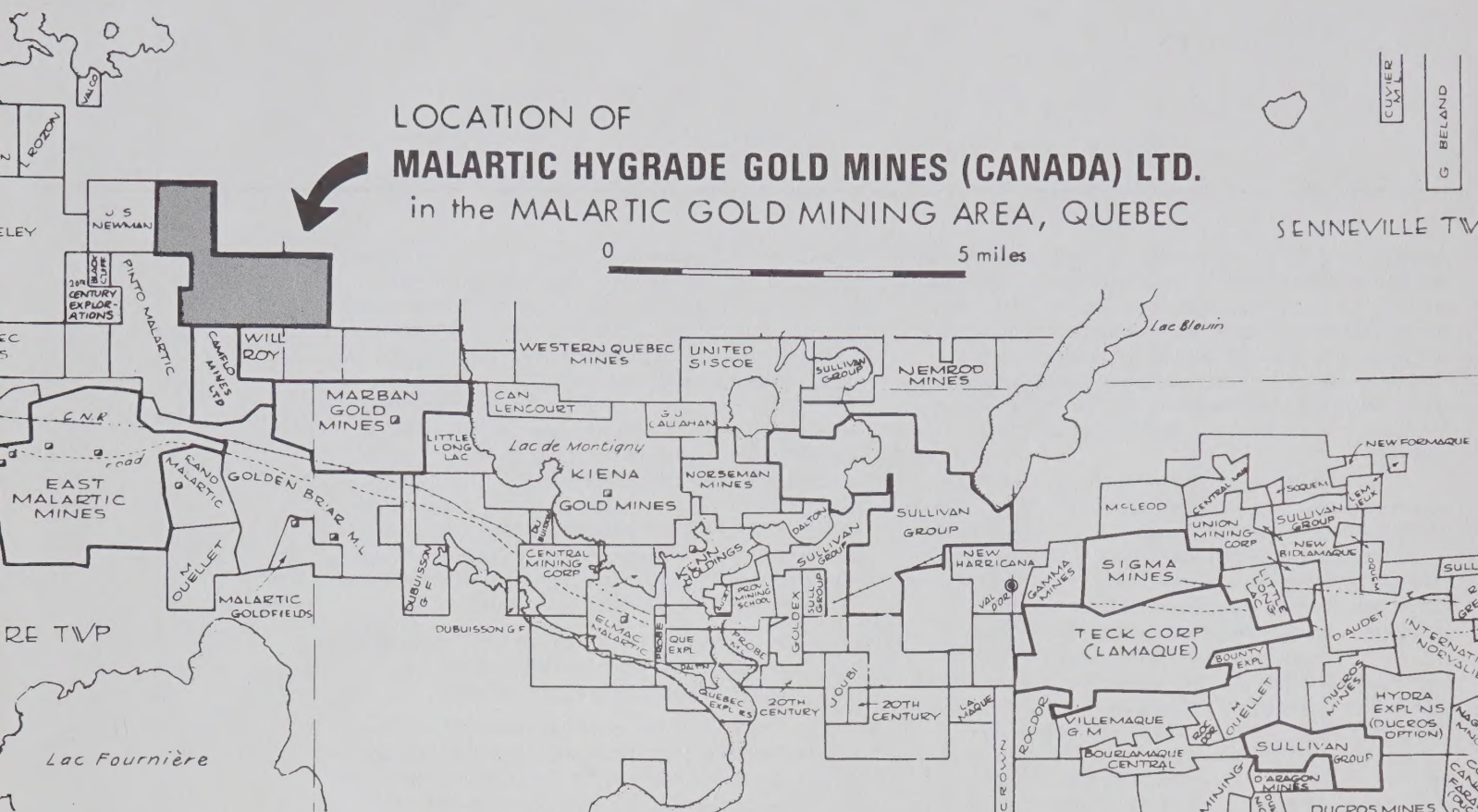
"Over a period of the past 10 years or so, under the policy that has been in effect since that time, this is the only person (Malartic Hygrade's President) who has taken such severe objection to the policies of the Commission. *There are dozens, perhaps hundreds of others who have been dealt with exactly the same.* We do have a tenacious person here who is bitterly objecting to his treatment.

"I want to confirm that everything I have seen, and that we have reviewed in the Ministry with the Commission, indicates that they (Malartic Hygrade) were treated no different to anyone else in the same situation."

and you went on further in reply to the same question to assume responsibility for the actions of your staff:

"We have continued to review each communication (from Malartic) as it arrives on our desks — on all our desks in the Assembly — and we find nothing in this to amount to a

Location



substantiated objection or valid criticism with regard to any of the members of *my* very competent staff at the Securities Commission."

and . . .

"In simple terms we have looked into the complaints. We find *our* staff has been completely cleared; nothing in here can be substantiated; *nothing*, we feel, is justified."

and . . .

"We are prepared to stand on the record of the Securities Commission and the judgment they made in the Malartic Hygrade case, and others of a similar nature."

Sir, these are criminal matters with which we are dealing which are a matter of record. If what you have said is true, *and* we must at this time assume that it is, and the staff of the Ontario Securities Commission has treated "dozens, perhaps hundreds of other" companies and individuals in exactly the same manner as that recorded in our transcripts and Submissions to the Minister as they have treated this company, then Sir — the officials of the Ontario Securities Commission are nothing more than a gang of outlaws wreaking havoc on the commercial life of the Province of Ontario and Canada.

I have been so taken aback by your statement that I have waited until now, so that you have had

nearly a year to consider the whole matter, in the belief that you could not possibly condone, let alone support this kind of conduct, because to do so would make you *without question*, guilty of the same offence.

You state that you ("we") have looked into the complaints, and we find *our* staff has been completely cleared." Thus you have placed pressure on the Ombudsman to come to the same conclusion. The Ombudsman, Mr. Arthur Maloney, has already been subjected to, and has responded to, pressure placed upon him by Mr. Arthur Patillo who demanded of him that the original investigator be removed from the case. A second investigator was removed, it would seem, because he actually began to properly investigate the matter. I enclose copies of two letters from him to our attorney. We do not intend, as requested, to destroy the first letter attached hereto.

Our experience with the Office of the Ombudsman, which purports to have been investigating this matter over these past fifteen months, has failed to instil confidence in me and I am developing the gravest suspicions about the true purpose of that office.

When Mr. James C. Baillie became Chairman of the Ontario Securities Commission at the beginning of this year we wrote to him on January 18 (see letter in Supplementary Submission II), he responded (see letter attached dated February 22.) While it is true that he is not responsible for matters which took

place prior to his appointment, he is responsible if such misconduct remains ongoing under his administration. To date he has done nothing to rectify those matters which continue. Mr. Baillie's attitude toward the misconduct in our case, on the part of Commission officials, can be summed up in his suggestion to our counsel that he should not act for this company because of our complaints against Commission officials.

It would appear to me, based on your failure to acknowledge or respond to our Submission, as well as your remarks made in the Legislature on December 5, 1977, together with those of Mr. Baillie to our counsel, and the lack of action on the part of the Ombudsman, that you approve of the criminal conspiracy being conducted against this company.

For many years the management of Camflo Mines Limited has misrepresented the position of the orebody it has been mining, to its shareholders and the public alike, first in failing to disclose it, and subsequently in misinforming them about the truth of the situation, when confronted with the facts. In response to criticism for a group of their own shareholders in 1973, Camflo issued a report to its shareholders dated August 29, 1973, signed by George T. Smith and A.W. Stollery wherein they stated:

"Whether Camflo's orebody extends onto the Malartic property is not known."

The Management of Camflo Mines Limited had known for several years prior to that date that the said ore zone did in fact extend onto our property, so the aforementioned statement was made knowing it to be false.

On June 20, 1973, Camflo made a written proposal to this company, as a result of which an underground survey was carried out by our surveyors in July 1973. This survey confirmed, what the management of *this* company and Camflo already knew, that the whole of the said ore zone extended onto our property. In fact the whole mining community,

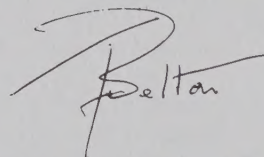
as well as the Ontario Securities Commission knew this to be the case. Despite this, the Camflo management continued, and was allowed to continue by Mr. H.S. Bray of the Ontario Securities Commission and officials under his direction, to misrepresent the facts of the matter to the PUBLIC.

It is only *now* five years later, under extreme pressure, that the Camflo management has finally told the truth about the ore zone to their shareholders, and thus the public as well. After having misrepresented the facts (by diagram) in their most recent Annual Report to shareholders, published in May of this year, in their quarterly report to shareholders dated May 29, 1978, again signed by George T. Smith and A.W. Stollery, they state:

"It is now clear that the Camflo Mine porphyry ore zone extends completely on to the Malartic Hygrade property at depth."

The motive for what has taken place in our case is clear, and it is absolutely clear that corruption in high places is involved. The issue is no longer just one between Camflo, Malartic Hygrade and a few corrupt civil servants. The issue is one of the people's confidence in their government. It is also one of investor confidence, both domestic and foreign. The essence of this matter is not only viewed with alarm in Ontario, it is viewed with increasing alarm from New York to Frankfurt, therefore, I fail to understand why you refuse to take effective action to prevent a further loss of confidence in the Administration.

Yours truly,

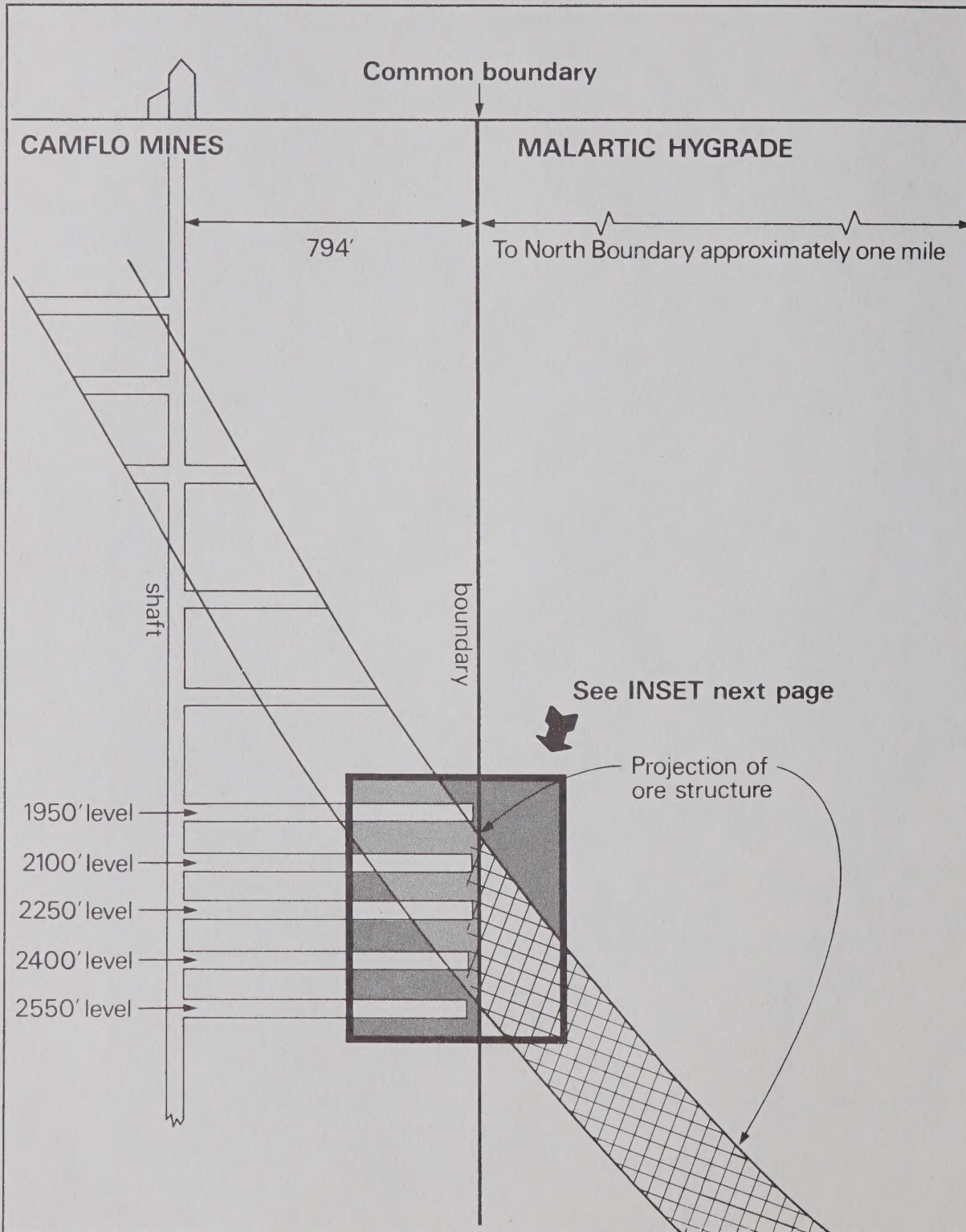


J.S. Belton, President



Vertical Cross Section

(Reproduced from the 1974 Annual Report and compiled by the Management of the Company based on information obtained by surveys and on other available data.)

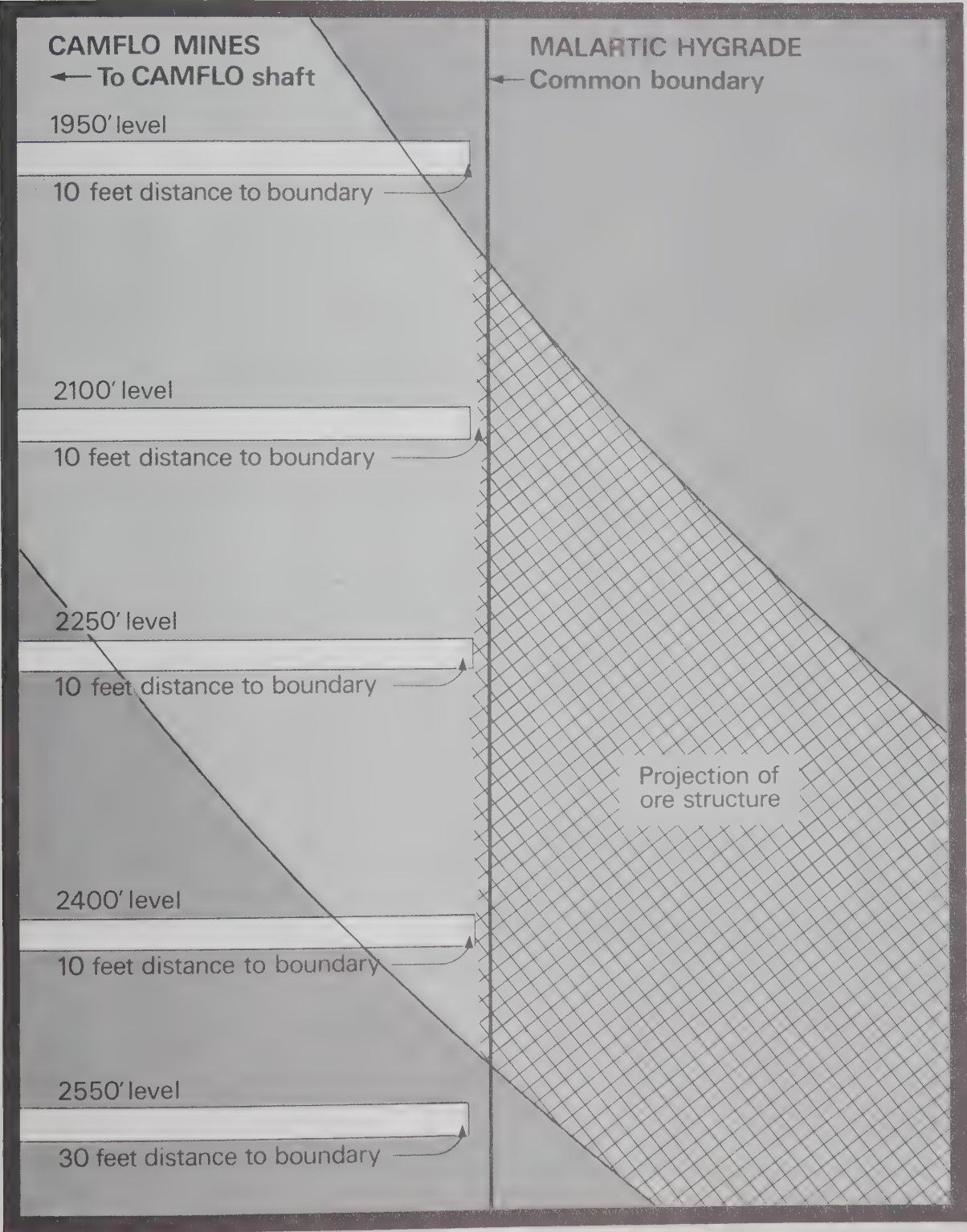


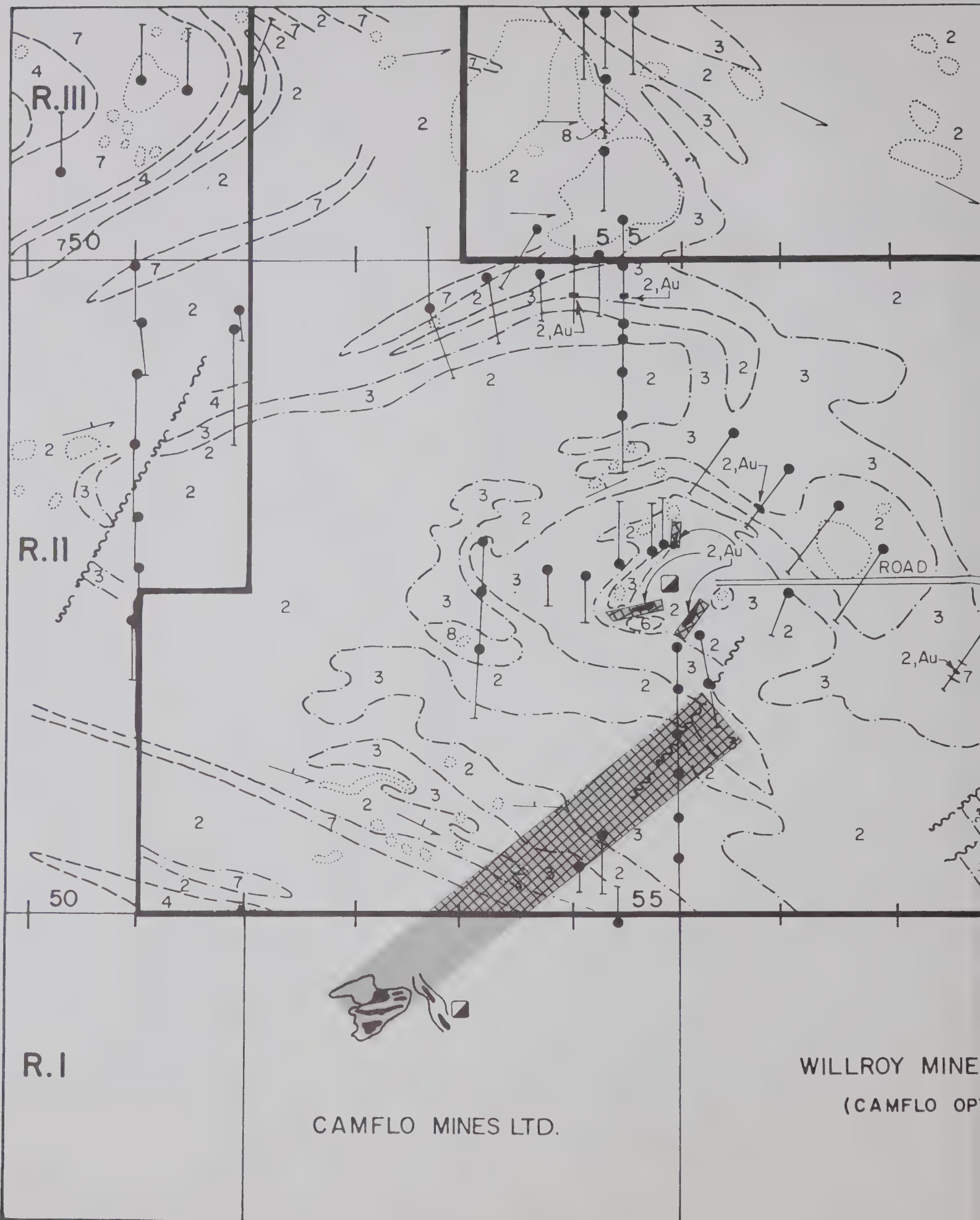
Inset-Vertical Cross Section

(Reproduced from the 1974 Annual Report and compiled by the Management of the Company based on information obtained by surveys and on other available data.)



Malartic
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Gold Mines
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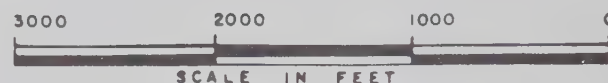






Geological Map

Malartic
Hygrade
Gold Mines
(Canada) Ltd.
and
adjacent properties
in Malartic Township,
Quebec



Scale in feet

Date: September 1974

Legend

- 2. Volcanic Flows — Andesite
- 3. Volcanic Flows Ultra Basic
- 4. Tuffs
- 5. Syenite
- 6. Granodiorite
- 7. Diorite
- 8. Feldspar Porphyry
- 9. Sediments

~ Shear or Fault Zone

▨ Projected Gold Zone

— Gold Zone

▣ Shaft

● Drill Hole

Au Commercial Grade
Gold Values

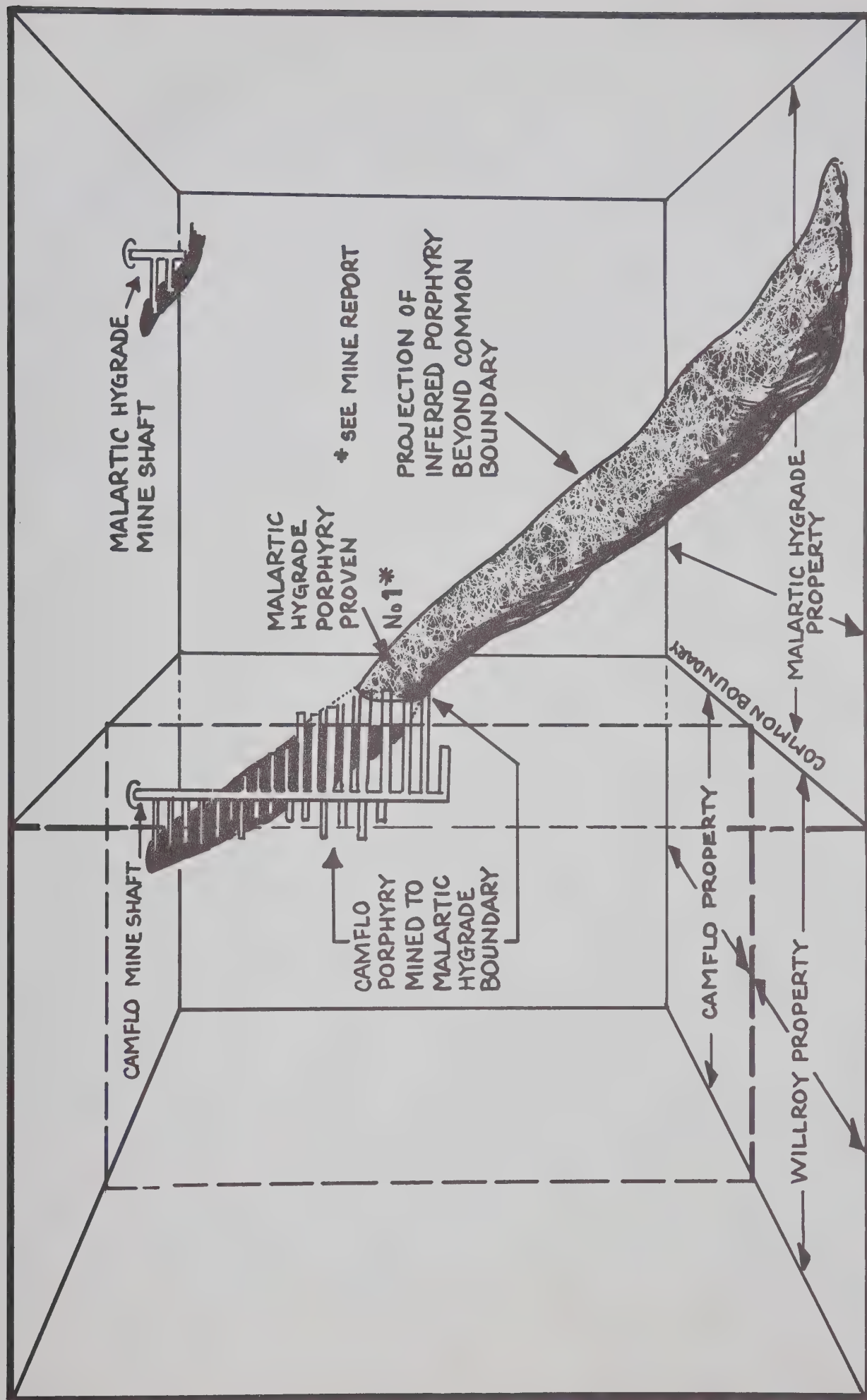


(Reproduced from the 1974 Annual Report and compiled by the Management of the Company based on information obtained by surveys and on other available data.)

LTD.

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Information based on
data from Mining
Companies and Gov-
ernment Publications.



LONGITUDINAL PROJECTION LOOKING WEST (ARTIST'S IMPRESSION)

Auditors' Report

To the Shareholders of Malartic Hygrade Gold Mines (Canada) Ltd.:

We have examined the balance sheet of Malartic Hygrade Gold Mines (Canada) Ltd. as of September 30, 1978, and the statements of deficit, deferred exploration, development and administrative expenditures and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

As set out in Note 1(c), mining properties and licences and deferred expenditures are carried on a cost basis. The recovery of these costs is dependent on various development projects, the success of which cannot be forecast at this time.

In our opinion, subject to the ultimate realization of the above noted costs, these financial statements present fairly the financial position of the company as at September 30, 1978, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
December 21, 1978

MacGillivray & Co.
Chartered Accountants

Balance Sheet

As of September 30, 1978

Assets

	<u>1978</u>	<u>1977</u>
Current		
Cash	\$ —	\$ 16,602
Government of Canada Treasury Bills	217,465	—
Accounts receivable	18,801	14,620
Accrued interest receivable	2,825	12,792
Prepaid expenses	5,549	4,566
	<u>244,640</u>	<u>48,580</u>
Investments		
Government of Canada Bonds	—	329,363
	<u>1,137,068</u>	<u>1,137,068</u>
Fixed Assets (Note 2)		
Mining Properties and Licences (Note 3)		
Malartic Township P.Q.	<u>1,758,500</u>	<u>1,758,500</u>
Deferred Expenditures	<u>930,703</u>	<u>823,946</u>
	<u>4,070,911</u>	<u>4,097,457</u>



Malartic
Hygrade
Gold Mines
(Canada) Ltd.

Liabilities

Current

	<u>1978</u>	<u>1977</u>
Bank indebtedness	\$ 7,352	\$ —
Accounts payable and accrued liabilities	<u>3,999</u>	<u>37,897</u>
	<u>11,351</u>	<u>37,897</u>

Shareholders' Equity

Capital Stock

Authorized

5,000,000 shares of no par value aggregate issue
consideration not to exceed \$15,000,000

Issued

3,441,687 shares 4,187,001 4,187,001

Deficit	<u>127,441</u>	<u>127,441</u>
	<u>4,059,560</u>	<u>4,059,560</u>
	<u>\$4,070,911</u>	<u>\$4,097,457</u>

APPROVED BY THE BOARD

H. Goldstein

DIRECTOR

Peter Jarvis

DIRECTOR

Statement of Deficit

For the year ended September 30, 1978

	<u>1978</u>	<u>1977</u>
Deficit, Beginning of Year	\$ 127,441	\$ —
Mining properties and licences written off	—	1,003
Write off of associated deferred expenditures	—	<u>126,438</u>
Deficit, End of Year	<u>\$ 127,441</u>	<u>\$ 127,441</u>

Statement of Deferred Exploration, Development and Administrative Expenditures

For the Year ended September 30, 1978

	<u>1978</u>	<u>1977</u>
Exploration and Development		
Malartic Township		
Feasibility studies	\$ —	\$ 3,254
Government fees and licences	—	759
Insurance and taxes	8,639	7,965
Mine salary and benefits	6,161	5,777
Surveying and drilling	29,351	49,592
	<u>44,151</u>	<u>67,347</u>
Administration Expenses		
Accounting and audit fees	5,118	5,607
Bank charges	1,833	2,098
Consulting fees	12,000	12,500
Directors' fees and expenses	10,594	13,171
General	4,048	8,052
Legal fees	17,923	34,689
Office and telephone	12,410	20,085
Office rent	6,150	6,954
Officer's salary and allowances	12,127	15,177
Printing and stationery	5,791	7,368
Transfer agent fees	5,105	4,417
Travelling	2,053	4,566
	<u>95,152</u>	<u>134,684</u>
Total Current Expenditures	<u>139,303</u>	<u>202,031</u>
Less: Interest earned	<u>22,642</u>	<u>82,275</u>
Overhead recovery	<u>3,723</u>	<u>3,930</u>
	<u>26,365</u>	<u>86,205</u>
Current Expenditures Before the Following	<u>112,938</u>	<u>115,826</u>
Gain on sale of Government of Canada Bonds	<u>6,181</u>	<u>23,550</u>
Net Current Expenditures	<u>106,757</u>	<u>92,276</u>
Deferred expenditures, beginning of year	<u>823,946</u>	<u>858,108</u>
	<u>930,703</u>	<u>950,384</u>
Costs related to leases expired, charged to deficit	<u>—</u>	<u>126,438</u>
Deferred Expenditures, End of Year	<u><u>\$930,703</u></u>	<u><u>\$823,946</u></u>

Statement of Changes in Financial Position



Malartic
Hygrade
Gold Mines
(Canada) Ltd.

For the year ended September 30, 1978

	<u>1978</u>	<u>1977</u>
Working Capital Derived From		
Disposal of investments	\$ 329,363	\$ 683,112
Issuance of no par value shares	—	600,000
	<u>329,363</u>	<u>1,283,112</u>
Working Capital applied to		
Operations	106,757	92,276
Purchase and cancellation of convertible income debenture ..	—	1,200,000
	<u>106,757</u>	<u>1,292,276</u>
Increase (Decrease) in Working Capital	222,606	(9,164)
Working capital, beginning of year	<u>10,683</u>	<u>19,847</u>
Working Capital, End of Year	<u>\$ 233,289</u>	<u>\$ 10,683</u>

Notes to the Financial Statements

September 30, 1978

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES

(a) Investments

Investments are valued at cost.

(b) Fixed Assets

Fixed assets are recorded at cost. It has been the policy of the company and its predecessors to defer the recording of depreciation on their fixed assets until such assets are utilized in production since such charges would only form a non-cash addition to deferred exploration, development and administrative expenditures.

(c) Mining Properties and Licences and Deferred Expenditures

Lease costs, claims costs, associated development costs and carrying costs are capitalized when incurred. When any lease expires, the cost of the lease plus any related deferred charges are written off to deficit in the year of expiry.

NOTE 2 — FIXED ASSETS

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value 1978</u>	<u>1977</u>
Buildings, machinery and equipment	<u>\$1,137,068</u>	<u>\$ —</u>	<u>\$1,137,068</u>	<u>\$1,137,068</u>

These assets have been carried on the books of the corporation and its predecessor corporation since 1968 and prior.

An appraisal of the corporation's insurable assets performed by S. Farquharson, dated May 21, 1976, discloses the following valuations:

	<u>Present Value</u>	<u>Replacement Cost</u>
Building and equipment	\$ 265,000	\$ 442,000

No estimates are available as to the present value of the other fixed assets. Values of all the above assets are subject to the ability of the corporation to utilize them in production at some future time in their present location and state of repair.

NOTE 3 – MINING PROPERTIES AND LICENCES

The company owns nine mining development licences covering a total of 1,350 acres in the township of Malartic in the Province of Quebec.

NOTE 4 – CONTINGENT LIABILITY

A predecessor company has filed a writ in the Supreme Court of Ontario against Camflo Limited for damages and for an injunction preventing the defendant from trespassing on the lands of the company.

The solicitor for the company estimates that future legal fees and court costs will be approximately \$15,000.

